

RATIFICATION OF TAXES IMPOSED BY THE PHILIPPINE LEGISLATURE

JANUARY 27, 1925.—Referred to the House Calendar and ordered to be printed

Mr. FAIRFIELD, from the Committee on Insular Affairs, submitted
the following

REPORT

[To accompany H. R. 11956]

The Committee on Insular Affairs, to whom was referred the bill (H. R. 11956) to amend the act entitled "An act making appropriations to supply urgent deficiencies in the appropriations for the fiscal year ending June 30, 1909, having considered same, reports unanimously favorably thereon and recommends that the bill do pass.

The following communication from the Secretary of War fully explains the bill and conditions which make necessary its passage:

I desire to solicit your good offices to secure the ratification by Congress of collections of taxes made under Acts Nos. 3065 and 3183 of the Philippine Legislature, approved March 16, 1923, and November 27, 1924, respectively, which raise the tax on merchants' sales in the Philippine Islands.

This tax had its origin in the internal revenue law of the Philippine Islands of 1904, Act No. 1189, enacted by the Philippine Commission on July 2 of that year. This law laid a tax against merchants and manufacturers at the rate of one-third of 1 per cent on the gross value in money of all goods, commodities, wares, and merchandise sold, bartered, or exchanged in the Philippine Islands, and, with some modifications, has been operating since that time. The modifications made from time to time have not been aimed so much to widen the field covered as to prevent evasion, to make the tax bear uniformly upon all merchants, to cover phases of its application not anticipated, and in some instances, perhaps, to construe or clarify the preceding enactment.

The question of its validity has come up from time to time in so far as it applies to sales, etc., of merchandise brought into or sent out of the islands, due to a possible conflict as against the laws of Congress, which, on the one hand, had enacted what duties should be laid on imports, and, on the other, had prohibited the levying by the local legislature of export duties.

The act of Congress of February 9, 1909, legalized and ratified collections "heretofore or hereafter" made under the law, since which time the validity of the tax as applied to imports has not been seriously questioned.

However, the organic act of Congress for the Philippine Islands of August 29, 1916, specifically prohibited the levying of export taxes. Thereafter a number of suits were instituted against the Philippine government on the ground that the tax collected on goods consigned abroad was in contravention of the provision in the organic act prohibiting export taxes. The Philippine courts upheld this

contention. The United States Supreme Court, however, has ruled in favor of the validity of the tax, mainly on the ground that the collections have been ratified by Congress.

The sales tax has been proven to be the most generally satisfactory method of producing revenue in the Philippine Islands and the one that meets with the least opposition among the people. Whenever it has become necessary to increase the revenues of the Philippine Government, to increase the sales tax rate is the method which has found greatest favor.

Act 3065 increases by one-half of 1 per cent the tax which was theretofore 1 per cent on the gross value of sales, to be in force until December 31, 1924; Act 3183 continues the tax levied under Act 3065 until December 31, 1925.

For Congress to ratify the collections made and to be made under the acts under consideration would be in accordance with precedent, as Congress has consistently ratified the collections made under each previous alteration of the Philippine sales tax law. The tax is obviously passed on to the ultimate consumer, so that for Congress not to ratify these laws would be to inflict a loss upon the Philippine Government without necessarily reimbursing those who have actually paid the tax.

I therefore urge that an amendment in some such form as the following be included in some bill assured of enactment before the close of the present session:

"That the taxes imposed by the Philippine Legislature in Act No. 3065, approved March 16, 1923, and Act No. 3183, approved November 27, 1924, are hereby legalized and ratified, and the collection of all such taxes made under or by authority of said acts of the Philippine Legislature is hereby legalized, ratified, and confirmed as fully to all intents and purposes as if the same had by prior act of Congress been specifically authorized and directed."

